

Report  
of the  
Examination of  
Wisconsin Lawyers Mutual Insurance Company  
Madison, Wisconsin  
As of December 31, 2002

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Jim Doyle, Governor*  
*Jorge Gomez, Commissioner*

*Wisconsin.gov*

December 23, 2003

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [information@oci.state.wi.us](mailto:information@oci.state.wi.us)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

Honorable Jorge Gomez  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of  
the affairs and financial condition of:

WISCONSIN LAWYERS MUTUAL INSURANCE COMPANY  
MADISON, WISCONSIN

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of the company was conducted in 1999 as of  
December 31, 1998. The current examination covered the intervening period ending  
December 31, 2002, and included a review of such 2003 transactions as deemed necessary to  
complete the examination.

The examination consisted of a review of all major phases of the company's  
operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans

Territory and Plan of Operations  
Growth of Company  
Reinsurance  
Financial Statements  
Accounts and Records  
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## **II. HISTORY AND PLAN OF OPERATION**

Wisconsin Lawyers Mutual Insurance Company (WILMIC) was incorporated in Wisconsin on January 13, 1986, and commenced business on July 1, 1986. The company is a nonassessable mutual insurer that writes professional liability insurance for attorneys whose law practice is located in Wisconsin. The company is not a member of a holding company system and is licensed only in Wisconsin.

WILMIC was originally organized by Wisconsin attorneys in response to concerns over the increasing cost and lack of availability of professional liability insurance. The company was initially capitalized by the proceeds from the issuance of subordinated surplus debentures (mutual bonds) pursuant to s. 611.33, Wis. Stat. Additional mutual bonds were issued in 1993 with the consent of the Commissioner of Insurance. On March 12, 2003, the Commissioner of Insurance granted the company approval to redeem the mutual bonds under s. 611.33, Wis. Stat., that remained after prior redemptions.

The company issues primarily claims-made policies, with a maximum policy limit of \$10 million. WILMIC may issue policies in excess of this limit under a facultative reinsurance arrangement, whereby the reinsurer does the underwriting and pricing. WILMIC also has issued a small number of endorsements extending the claims reporting period. Usually, the extended reporting period endorsements are issued to lawyers who have discontinued practicing law, and desire continued coverage for the years in which they were practicing. Three of the company's employees are licensed as agents. Policies are direct-marketed through promotional material mailed or delivered to prospective insured's. The company also promotes its products at the State Bar of Wisconsin Annual Convention and through advertisements in trade publications.

The following table is a summary of the net insurance premiums written by the company in 2002. The growth of the company is discussed in the Financial Data section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Other liability - occurrence	\$ 95,864	\$0	\$ 23,739	\$ 72,125
Other liability - claims made	<u>3,752,793</u>	0	<u>929,304</u>	<u>2,823,489</u>
Total All Lines	<u>\$3,848,657</u>	<u>\$0</u>	<u>\$953,043</u>	<u>\$2,895,614</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of 14 members, including the ex-officio members. Four directors are elected annually to serve a three-year term. Article III, section 12 of the bylaws provides that WILMIC's president and the president of the State Bar of Wisconsin are ex-officio members of the board and have the right to serve as regular members of the board as long as each individual holds office. Officers are elected at the board's annual meeting. The board members currently receive \$500 for attending board meetings in person or \$250 for participating via telephone. The committee members receive \$500 for attending committee meetings in person.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Patricia K. Ballman Milwaukee, WI	State Bar President	Ex-officio
John S. Bubolz Appleton, WI	Former President Secura Insurance Companies	2003
Richard J. Byron Wausau, WI	Retired General Counsel Wausau Insurance Companies	2005
Jay S. Carmichael Tomah, WI	Attorney Carmichael & Quartemont, S.C.	2005
John E. Danner Minocqua, WI	Attorney Harold, Scrobell & Danner, S.C.	2004
Linda de la Mora Elm Grove, WI	Attorney de la Mora & de la Mora	2005
Donald L. Heaney Madison, WI	Attorney Lathrop & Clark	2005
Melvin G. McCartney Madison, WI	President & Chief Executive Officer WILMIC	Ex-officio
John P. Miller Milwaukee, WI	Attorney Miller, McGinn & Clark, S.C.	2004
William J. Mulligan, Chairman Milwaukee, WI	Attorney Davis & Kuelthau, S.C.	2003

Anne E. Ross Madison, WI	Attorney Foley & Lardner	2003
Thomas R. Schumacher Baldwin, WI	Attorney Bakke Norman, S.C.	2004
Thomas S. Sleik La Crosse, WI	Attorney Hale, Skemp, Hanson, Skemp & Sleik	2003
Marie A. Stanton Madison, WI	Attorney Hurley, Burish & Milliken, S.C.	2004

### **Officers of the Company**

The officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2002 Compensation</b>
Melvin McCartney	President & Chief Executive Officer	\$238,525
Katja Kunzke	Chief Operations Officer	101,582
Dennis Marx	Vice President-Underwriting	90,949
Donald Heaney	Secretary	2,500
John Bubolz	Treasurer	1,200

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees of the board of directors. The committees at the time of the examination are listed below:

#### **Executive Committee**

William Mulligan, Chair  
Richard Byron  
John Danner  
Donald Heaney  
Melvin McCartney  
Anne Ross  
Thomas Sleik

#### **Audit Committee**

Anne Ross, Chair  
John Bubolz  
Richard Byron  
John Miller  
Marie Stanton  
Jay Carmichael

#### **Investment Committee**

John Bubolz, Chair  
Linda de la Mora  
Melvin McCartney  
William Mulligan  
Thomas Sleik  
Thomas Schumacher

#### **Nominating Committee**

Richard Byron  
John Danner  
Donald Heaney  
Melvin McCartney  
Thomas Schumacher



#### IV. REINSURANCE

The company's reinsurance program as of December 31, 2002, consisted of three treaties. The company retains \$150,000 of each loss including loss adjustment expenses. The reinsurers cover amounts in excess of this retention through the three layers of excess coverage. The contracts contained proper insolvency provisions.

##### Nonaffiliated Ceding Contracts

1. Type: Casualty Excess of Loss  

Reinsurer:	Underwriting Members of Lloyd's	35%
	Hannover Ruckversicherungs-	
	Aktiengesellschaft	25
	Continental Casualty Company	20
	Converium, LTD	<u>20</u>
		<u>100%</u>

Scope: Lawyers professional liability claims including loss adjustment expenses (LAE)

Retention: \$150,000 each insured, each claim

Coverage: \$850,000 each insured, each claim

For purposes hereof, the contract deems a maximum policy limit of \$1,000,000, each and every loss except as respects excess of policy limits and extra-contractual obligations coverage, for which coverage applies to all original policies issued irrespective of limits.

Premium: Minimum: The sum of 6% of net premium written and 107.5% of reinsurers' share of subject incurred losses and LAE

Maximum: 32% of net premium written

Effective date: April 1, 2002, 36 month arrangement subject to annual cancellation by either party
2. Type: First Cessions Casualty Excess  

Reinsurer:	Underwriting Members of Lloyd's	35%
	Hannover Ruckversicherungs-	
	Aktiengesellschaft	25
	Continental Casualty Company	20
	Converium, LTD	15
	Lawyers Reinsurance Company	<u>5</u>
		<u>100%</u>

Scope:	Lawyers professional liability claims including loss adjustment expenses (LAE)		
Retention:	\$1,000,000 each insured, each claim		
Coverage:	\$4,000,000 each insured, each claim, including LAE		
Premium:	Annual deposit premium of \$200,000 adjustable at expiry. Reinsurers receive the actual premium charged by WILMIC for the coverage provided on policies covering between \$1,000,000 and \$5,000,000.		
Commissions:	15% of ceded premium		
Effective date:	April 1, 2002		
Termination:	March 31, 2003		
3. Type:	Casualty Excess Cession		
Reinsurer:	Underwriting Members of Lloyd's	72.34%	
	Swiss Reinsurance Company	20.00	
	Zurich Insurance Company	<u>7.66</u>	
		<u>100.00%</u>	
Scope:	Lawyers professional liability claims including loss adjustment expenses (LAE)		
Retention:	\$5,000,000 each insured, each claim		
Coverage:	\$5,000,000 each insured, each claim, including LAE		
Premium:	The premium charged by WILMIC on coverages exceeding \$5,000,000.		
Commissions:	15% of ceded premium		
Effective date:	April 1, 2002		
Termination:	March 31, 2003		

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

**Wisconsin Lawyers Mutual Insurance Company**  
**Assets**  
**As of December 31, 2002**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$15,925,078	\$	\$15,925,078
Stocks:			
Preferred stocks	1,790,177		1,790,177
Common stocks	1,633,457		1,633,457
Cash	89,803		89,803
Short-term investments	730,243		730,243
Other invested assets	13,589	13,589	0
Agents' balances or uncollected premiums:			
Premiums, agents' balances, and installments booked but deferred and not yet due	453,685		453,685
Reinsurance recoverable on loss and loss adjustment expense payments	11,966		11,966
Federal and foreign income tax recoverable and interest thereon	711,200	361,200	350,000
Electronic data processing equipment and software	21,378		21,378
Interest, dividends, and real estate income due and accrued	160,843		160,843
Other assets nonadmitted:			
Furniture, equipment, and supplies	3,263	3,263	
Leasehold improvements	6,966	6,966	
Write-ins for other than invested assets			
State Income Tax Recoverable	718		718
Contingent commission receivable	105,036		105,036
Due from insured-Deductible	16,882	2,000	14,882
Security deposit	4,737	4,737	0
Prepaid expenses	75,145	75,145	0
Miscellaneous receivables	<u>4,464</u>	<u>4,464</u>	<u>0</u>
<b>Total Assets</b>	<b><u>\$21,758,630</u></b>	<b><u>\$471,364</u></b>	<b><u>\$21,287,266</u></b>

**Wisconsin Lawyers Mutual Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2002**

Losses		\$ 3,341,851
Loss adjustment expenses		2,923,451
Other expenses (excluding taxes, licenses, and fees)		40,743
Taxes, licenses, and fees (excluding federal and foreign income taxes)		18,000
Federal and foreign income taxes		32,150
Unearned premiums		1,205,559
Advance premium		153,840
Ceded reinsurance premiums payable (net of ceding commissions)		58,474
Funds held by company under reinsurance treaties		912,435
Amounts withheld or retained by company for account of others		236,226
Remittances and items not allocated		25,545
Provision for reinsurance		<u>23,000</u>
Total Liabilities		8,971,274
Surplus notes	\$ 257,750	
Unassigned funds (surplus)	<u>12,058,242</u>	
Surplus as Regards Policyholders		<u>12,315,992</u>
Total Liabilities and Surplus		<u>\$21,287,266</u>

**Wisconsin Lawyers Mutual Insurance Company**  
**Summary of Operations**  
**For the Year 2002**

**Underwriting Income**

Premiums earned		\$2,895,512
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Deductions:

Losses incurred	\$336,178	
Loss expenses incurred	980,367	
Other underwriting expenses incurred	<u>745,660</u>	
Total underwriting deductions		<u>2,062,205</u>

Net underwriting gain or (loss)		833,307
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**Investment Income**

Net investment income earned	930,184	
Net realized capital gains or (losses)	<u>54,679</u>	
Net investment gain or (loss)		984,863

**Other Income**

Finance and service charges not included in premiums	52,590	
Write-ins for miscellaneous income:		
Miscellaneous income	7,983	
Interest on surplus notes	<u>(10,333)</u>	
Total other income		<u>50,240</u>

Net income (loss) before dividends to policyholders and before federal and foreign income taxes		1,868,410
Dividends to policyholders		<u>736,652</u>

Net income (loss) after dividends to policyholders but before federal and foreign income taxes		1,131,758
Federal and foreign income taxes incurred		<u>322,150</u>

Net Income		<u>\$ 809,608</u>
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**Wisconsin Lawyers Mutual Insurance Company**  
**Cash Flow**  
**As of December 31, 2002**

Premiums collected net of reinsurance		\$2,979,337
Deduct:		
Loss and loss adjustment expenses paid (net of salvage or subrogation)		1,990,771
Underwriting expenses paid		770,639
Other underwriting expenses (income)		<u>(23,322)</u>
Cash from underwriting		241,249
Net investment income		937,985
Other income (expenses):		
Net funds held under reinsurance treaties	\$(164,108)	
Net amount withheld or retained for account of others	56,558	
Write-ins for miscellaneous items:		
Miscellaneous Items	<u>50,240</u>	
Total other income		(57,310)
Deduct:		
Dividends to policyholders paid		736,652
Federal income taxes paid (recovered)		<u>250,002</u>
Net cash from operations		\$135,270
Proceeds from investments sold, matured, or repaid:		
Bonds	\$5,137,301	
Stocks	<u>833,180</u>	
Total investment proceeds		5,970,481
Cost of investments acquired (long-term only):		
Bonds	5,072,231	
Stocks	<u>1,086,412</u>	
Total investments acquired		<u>6,158,643</u>
Net cash from investments		(188,162)
Cash provided from financing and miscellaneous sources:		
Surplus notes, capital and surplus paid in		<u>(367)</u>
Net change in cash and short-term investments		(53,259)
<b>Reconciliation</b>		
Cash and short-term investments, December 31, 2001		<u>873,305</u>
Cash and short-term investments, December 31, 2002		<u>\$ 820,046</u>

**Wisconsin Lawyers Mutual Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2002**

Assets		\$21,287,266
Less security surplus of insurance subsidiaries		
Less liabilities		<u>8,971,274</u>
Adjusted surplus		12,315,992
Annual premium:		
Lines other than accident and health	2,895,613	
Factor	<u>20%</u>	
Total	579,123	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory surplus excess (or deficit)		<u>\$10,315,992</u>
Adjusted surplus (from above)		\$12,315,992
Security surplus:		
(140% of compulsory surplus, factor reduced 1% for each		
\$33 million in premium written in excess of		
\$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security surplus excess (or deficit)		<u>\$9,515,992</u>



**Wisconsin Lawyers Mutual Insurance Company  
Reconciliation and Analysis of Surplus  
For the 4-Year Period Ending December 31, 2002**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Surplus, beginning of year	\$12,120,653	10,320,570	8,937,326	8,290,661
Net income	809,608	1,417,986	2,057,239	1,590,907
Net unrealized capital gains or (losses)	(438,126)	53,033	32,533	(306,203)
Change in net deferred income tax	8,999	(14,180)		
Change in non-admitted assets	(177,775)	2,244	(5,227)	47,575
Change in provision for reinsurance	(7,000)	5,000	(15,000)	6,000
Change in surplus notes	(367)		(686,301)	(691,614)
Cumulative effect of changes in accounting principles		336,000		
Surplus, end of year	<u>\$12,315,992</u>	<u>\$12,120,653</u>	<u>\$10,320,570</u>	<u>\$8,937,326</u>

**Wisconsin Lawyers Mutual Insurance Company  
Insurance Regulatory Information System  
For the 4-Year Period Ending December 31, 2002**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination.

	<b>Ratio</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
#1	Gross Premium to Surplus	31.0%	31.0%	38.0%	45.0%
#2	Net Premium to Surplus	24.0	27.0	34.0	38.0
#3	Change in Net Writings	(13.0)	(5.0)	4.0	3.0
#4	Surplus Aid to Surplus	0.0	1.0	2.0	1.0
#5	Two-Year Overall Operating Ratio	54.0	38.0	34.0	57.0
#6	Investment Yield	4.6	4.9	5.3	5.4
#7	Change in Surplus	2.0	18.0	15.0	8.0
#8	Liabilities to Liquid Assets	42.0	45.0	50.0	56.0
#9	Agents' Balances to Surplus	0.0	0.0	0.0	0.0
#10	One-Year Reserve Devel. to Surplus	(10.0)	(14.0)	(18.0)	(26.0)
#11	Two-Year Reserve Devel. to Surplus	(23.0)	(24.0)	(39.0)	(30.0)
#12	Estimated Current Reserve Def. To Surplus	(16.0)	(12.0)	(10.0)	(27.0)

There were no unusual IRIS ratio results during the period under examination.

### Growth of Wisconsin Lawyers Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2002	\$21,287,266	\$8,971,274	\$12,315,992	\$809,608
2001	21,794,844	9,674,191	12,120,653	1,417,986
2000	20,217,244	9,896,674	10,320,570	2,057,239
1999	19,959,505	11,022,179	8,937,326	1,590,907

  

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2002	\$3,848,657	\$2,895,614	\$2,895,512	45.5%	24.0%	69.5%
2001	3,779,831	3,318,459	3,378,889	34.7	18.2	52.9
2000	3,914,416	3,504,724	3,497,661	26.3	16.4	42.7
1999	4,065,670	3,378,731	3,256,324	31.7	20.5	52.2

In the past four years, the company has consistently contributed to its surplus. Positive operating results have allowed the company to redeem the remainder of its outstanding mutual bonds in early 2003. During the period under review, the surplus increased by 48.5%. Surplus increased as a result of positive net income for all years of the examination period ranging from a high of \$2.1 million in 2000 to a low of \$890,000 in 2002. Gross premium written has slightly decreased over the period, but ceded reinsurance premium has increased 38.7%. Reported liabilities have steadily decreased, while assets have increased from 1999 to 2001 with a slight decline in 2002. The 2002 asset decline is the result of an increase in paid claims and a decrease in the market value of securities.

### **Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination.

### **Examination Reclassifications**

	<b>Debit</b>	<b>Credit</b>
Funds Held by Company Under Reinsurance Treaties	\$912,435	
Ceded Reinsurance Premiums Payable		\$912,435

## VI. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were six specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Fidelity Coverage—It is recommended that the company obtain fidelity coverage at the level prescribed in the 1996 edition of the NAIC Financial Condition Examiners Handbook.

Action—Compliance.

2. Bonds—It is recommended that the company or its investment advisor file Security Acquisition Reports as required by the Purposes and Procedures Manual of the NAIC Securities Valuation Office within 120 days of the date of purchase for securities not already listed in the NAIC's database.

Action—Compliance.

3. Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due—It is recommended that in future annual statements, the company report in this asset account the amount of deferred installment premiums on policies that are in force as of the statement date.

Action—Compliance.

4. Unearned Premium—It is recommended that when deducting unearned ceded reinsurance premiums from this liability, such deduction should be a reasonable estimate of ultimate reinsurance premiums based on information known to the company.

Action—Compliance.

5. Amounts Withheld or Retained by Company for the Account of Others—It is recommended that in future annual statements, the company not include advance premiums in amounts withheld or retained by company for the account of others.

Action—Compliance.

6. Advance Premiums—It is recommended that the company include in this liability only premiums that have actually been received.

Action—Compliance.

## **Summary of Current Examination Results**

### **Electronic Data Processing**

It was noted that access to the company's computer facility is not properly limited to designated personnel. It is recommended that the company secure access to the computer room.

### **Custody of Invested Assets**

All of the investment securities of the company were held, pursuant to a corporate custodian agreement effective in 1996. The examiners' review of the company's custodial agreement indicated that it did not contain the following clauses, as recommended by the NAIC's

#### Financial Condition Examiners' Handbook:

1. The custodian is to be obligated to indemnify the company for any loss of securities in its safekeeping, except that it shall not be obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian and the custodian's chosen depositories and subcustodians.
2. If there is a loss of securities for which the custodian is obligated to indemnify the company, either the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

It is recommended that the company amend its corporate custodian agreement to obligate the custodian to promptly indemnify the company for losses caused by negligence or dishonesty of the custodian and the custodian's chosen depositories and subcustodians, and to maintain the company's securities in such a manner that at all times they may be identified as belonging solely to the company.

### **Funds Held by Company Under Reinsurance Treaties**

**\$0**

The balance of this account was reduced to \$0 as a result of the reclassification of the entire balance of \$912,435 to Ceded Reinsurance Premiums Payable. Review of the account noted that the reported balance is an estimated accrual that the company establishes for additional reinsurance premiums. The examiners' review of the reinsurance treaties noted that there is no funds held provision. The NAIC Property and Casualty Annual Statement Instructions require that Funds Held Under Reinsurance Treaties report "... premiums withheld by the

company as specified in the reinsurance contract...” Because the accrual does not report funds withheld per the reinsurance treaty, the balance should not be reported as Funds Held by Company Under Reinsurance Treaties. NAIC Property and Casualty Annual Statement Instructions require that accrued reinsurance premiums be reported as Ceded Reinsurance Premiums Payable. It is recommended that the company classify the accrual for reinsurance premiums as Ceded Reinsurance Premiums Payable as required by the NAIC Property and Casualty Annual Statement Instructions.

**Ceded Reinsurance Premiums Payable**

**\$970,909**

This account balance was increased from the annual statement amount of \$58,474 to \$970,909 as a result of the \$912,435 reclassification from Funds Held by Company Under Reinsurance Treaties. The reclassification and recommendation is described in the paragraph above and reflected in the section of this report titled “Examination Reclassifications.”

## **VII. CONCLUSION**

Wisconsin Lawyers Mutual Insurance Company is a mono-line professional liability writer for attorneys located in Wisconsin. The company primarily writes claims-made policies, with a maximum policy limit of \$10 million. Subsequent to year-end, the remainder of the outstanding mutual bonds from the second issue was redeemed.

The company has consistently reported net income and reduced debt over the examination period. Admitted assets have increased from 1999 to 2001 with a slight decrease in 2002. The favorable operating results contributed to a 48.5% increase in surplus since the last examination from \$8,290,661 to \$12,315,992.

The examination determined that as of December 31, 2002, the company had total admitted assets of \$21,287,266, total liabilities of \$8,971,274, and policyholders' surplus of \$12,315,992. The company complied with all recommendations from the previous examination. The current examination resulted in three recommendations and did not make an adjustment to surplus.

## VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Electronic Data Processing—It is recommended that the company secure access to the computer room.
2. Page 19 - Custody of Invested Assets—It is recommended that the company amend its corporate custodian agreement to obligate the custodian to promptly indemnify the company for losses caused by negligence or dishonesty of the custodian and the custodian's chosen depositories and subcustodians, and to maintain the company's securities in such a manner that at all times they may be identified as belonging solely to the company.
3. Page 20 - Ceded Reinsurance Premiums Payable—It is recommended that the company classify the reserve for reinsurance premiums as Ceded Reinsurance Premiums Payable as required by the NAIC Property and Casualty Annual Statement Instructions.



## **IX. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
DuWayne Kottwitz	Financial Examiner
Cruz Flores	Data Processing Audit Specialist

Respectfully submitted,

Ryan J. Hanson, CPA  
Examiner-in-Charge